

NEW ORLEANS MISSION, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8-17-05

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

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BENJAMIN J. ERICKSEN - RETIRED
J.V. LECLERE KRENTEL - RETIRED

To the Board of Directors
New Orleans Mission, Inc. and Subsidiary

We were engaged to audit the accompanying consolidated statement of financial position of New Orleans Mission, Inc. (the Mission) and Subsidiary as of June 30, 2004 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management.

Detailed accounting records have not been maintained and certain prior-year records and supporting data were not available for our audit. Therefore, we were not able to satisfy ourselves about the amounts at which certain accounts such as employee advances, pledge receivables, property and equipment, and related accumulated depreciation and accrued expenses are recorded in the accompanying balance sheet at June 30, 2004. Additionally, we noted the following departure from accounting principles generally accepted in the United States of America.

The Mission has not recorded an allowance for doubtful accounts for employee advances, grants receivable or pledges receivable. Generally accepted accounting principles require such accounts to be recorded net of an allowance for estimated uncollectible amounts. The effects of this departure could not be determined.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the consolidated financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2005, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

July 5, 2005


Certified Public Accountants

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ (364)
Employee advances	27,867
Investments	2,484
Grants receivables	11,001
Pledges receivable	10,000
Inventories	8,144
Prepaid expenses	<u>6,034</u>
 Total current assets	 <u>65,166</u>

PROPERTY AND EQUIPMENT:

Land and buildings	233,403
Building improvements	793,484
Furniture, fixtures and equipment	210,719
Vehicles	<u>27,767</u>
	1,265,373
Less: accumulated depreciation	<u>(483,942)</u>
 Net property and equipment	 <u>781,431</u>
 Total assets	 <u>\$ 846,597</u>

See accompanying NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exhibit "A"

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Line of credit	\$ 24,764
Accounts payable	179,761
Accrued liabilities	121,573
Current maturities of long-term debt	<u>13,799</u>
Total current liabilities	<u>339,897</u>

NON-CURRENT LIABILITIES:

Long-term debt less current maturities	<u>317,959</u>
Total non-current liabilities	<u>317,959</u>
Total liabilities	<u>657,856</u>

NET ASSETS:

Unrestricted net assets	165,241
Temporarily restricted net assets	<u>23,500</u>
Total net assets	<u>188,741</u>
Total liabilities and net assets	<u><u>\$ 846,597</u></u>

See accompanying NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exhibit "B"

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
<u>PUBLIC SUPPORT AND OTHER REVENUES:</u>			
Contributions	\$ 868,108	\$ -	\$ 868,108
Grants	132,752	-	132,752
Investment income	496	-	496
Loss on disposal of assets	(3,265)	-	(3,265)
	<hr/>	<hr/>	<hr/>
Total public support and other revenues	998,091	-	998,091
	<hr/>	<hr/>	<hr/>
<u>FUNCTIONAL EXPENSES:</u>			
Program services	1,034,215	-	1,034,215
Fund raising	99,033	-	99,033
Management and general	67,975	-	67,975
	<hr/>	<hr/>	<hr/>
Total functional expenses	1,201,223	-	1,201,223
	<hr/>	<hr/>	<hr/>
Change in net assets	(203,132)	-	(203,132)
	<hr/>	<hr/>	<hr/>
Net assets, beginning of year	368,373	23,500	391,873
	<hr/>	<hr/>	<hr/>
Net assets, end of year	<u>\$ 165,241</u>	<u>\$ 23,500</u>	<u>\$ 188,741</u>

See accompanying NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exhibit "C"

**NEW ORLEANS MISSION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Program Services</u>	<u>Fund Raising</u>	<u>Management and General</u>	<u>Total</u>
Appeals printing	\$ -	\$ 88,785	\$ -	\$ 88,785
Depreciation	103,638	-	-	103,638
Development	-	10,248	-	10,248
Food	91,327	-	-	91,327
Food service supplies	61,221	-	-	61,221
Health insurance	19,060	-	-	19,060
Insurance	36,298	-	245	36,543
Interest	23,362	-	189	23,551
Miscellaneous	349	-	36,281	36,630
Other office expense	13,208	-	2,777	15,985
Other program costs	225,073	-	-	225,073
Payroll taxes	21,664	-	-	21,664
Professional services	-	-	13,859	13,859
Property taxes	-	-	6,647	6,647
Repairs and maintenance	17,493	-	-	17,493
Salaries	355,888	-	-	355,888
Telephone	7,706	-	7,977	15,683
Travel and conference	2,206	-	-	2,206
Utilities	55,722	-	-	55,722
	<u>\$ 1,034,215</u>	<u>\$ 99,033</u>	<u>\$ 67,975</u>	<u>\$ 1,201,223</u>

See accompanying NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exhibit "D"

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:

Change in net assets	\$ (203,132)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities:	
Depreciation and amortization	103,638
Loss on disposal of property	3,265
(Increase) decrease in assets:	
Grants receivable	7,776
Pledges receivable	12,000
Prepaid expenses	4,188
Inventories	(144)
Increase (decrease) in liabilities:	
Accounts payable	(7,082)
Accrued liabilities	79,792
Total adjustments	<u>203,433</u>
Net cash from operating activities	<u>301</u>

CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:

Capital expenditures	(29,224)
Employee advances	(27,867)
Proceeds from sale of investments	<u>4,037</u>
Net cash (used for) investing activities	<u>(53,054)</u>

CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES:

Net borrowings under line of credit	14,764
Principal payments on long-term debt	<u>(2,348)</u>
Net cash from financing activities	<u>12,416</u>
Net (decrease) in cash and cash equivalents	(40,337)
Cash and cash equivalents at beginning of year	<u>39,973</u>
Cash and cash equivalents at end of year	<u><u>\$ (364)</u></u>

See accompanying NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Organization

The New Orleans Mission, Inc. (the Mission) is a non-profit, non-stock corporation organized to operate a street rescue mission aiding various segments of the homeless population, to rehabilitate alcoholics and drug addicts, and to educate the public regarding the unique needs of the homeless. The Mission is not a private foundation. The Mission is a member of the International Union of Gospel Missions (IUGM). The Mission's subsidiary, Mission Properties Foundation, Inc., is a non-profit, non-stock corporation organized to acquire, operate, and hold real property for the Mission.

Principles of Consolidation

The consolidated financial statements include the accounts of New Orleans Mission, Inc. and its wholly owned subsidiary, Mission Properties Foundation, Inc. All material interorganization transactions have been eliminated.

Basis of Accounting

The accompanying consolidated financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded when incurred. Contributions are recognized when received or when unconditionally promised. In-kind contributions are recognized at their fair market value when received.

Investments

Investments consist of stocks, bonds and mutual funds. Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets.

When investment securities are sold, realized gains and losses are computed under the specific identification method.

Inventory

Inventory consists of food, clothing, bedding, medical supplies and building salvage materials used by the Mission in its programs. Food inventory is valued using an average cost per pound. Other inventory is valued at the lower of cost or market with cost determined by the first-in, first-out (FIFO) method, or, if donated inventory, at the fair market value at the time of the donation.

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Equipment is recorded at cost when purchased and at fair market value when received as a donation. The Mission capitalizes all assets with an original cost of \$500. Expenditures for maintenance, repairs, and minor renewals are charged against earnings as incurred. Major expenditures for improvements, renewals and betterments are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 31 years. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any resulting gain or loss is reflected in the change in net assets.

Donated Materials and Services

The Mission records the estimated value of donated materials when there is an objective basis available to measure their value. Donated food is essential to the Mission and, therefore, the Mission records it at an estimated fair market value. A substantial amount of clothing and furniture is donated to the Mission during the year. These donations are recorded at a minimal value since (a) their value varies greatly depending on the condition and type and (b) they are usually passed through the Mission to its charitable beneficiaries or other charitable organizations.

The Mission records the value of contributed services when the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing these skills and would typically need to be purchased if not provided by donation. Contributed services for doctors and ministers are recorded. While individuals enrolled in the Mission's program donate significant amounts of their time in the Mission's program activities, these services have not been recorded since these individuals are also beneficiaries of the Mission and usually do not have specialized skills.

Financial Statement Presentation

In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations," the mission is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Mission is required to present a statement of cash flows.

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made", contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Under SFAS No. 116, time restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction.

Numerous donations are received to feed the homeless and needy. The Mission recognizes these as unrestricted contributions because the restriction is met within the same reporting period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Mission and its subsidiary are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state income tax under Section 121(5) of Title 47 of the Louisiana Revised Statutes of 1950.

Functional Expenses

Expenses are charged to each program or function based on direct expenditures incurred. Any expenditures not directly chargeable are allocated to programs or functions based on the estimated hours spent by the Mission's employees on each program or function.

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses (continued)

The Mission conducts activities that include requests for contributions, as well as program and management and general components. Based on the content and audience criteria specified in Statement of Accounting Position (SOP) 98-2, "Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising", the entire amount of joint costs was allocated to fundraising.

Advertising

The Mission solicits contributions by advertising through direct mailings and newspapers which also stimulates a positive entity image. Under SOP 93-7, "Reporting on Advertising Costs", the Mission expenses the production costs of advertising as incurred except for direct-response advertising which is capitalized and amortized over its expected period of future benefits. Advertising expense was \$88,785 during the year ended June 30, 2004. There was no direct-response advertising for 2004.

Cash and cash equivalents

For purposes of the statement of cash flows, the Mission considers short-term investments, if any, with an original maturity of less than three months from the acquisition date to be cash equivalents.

(2) INVENTORY

At June 30, 2004, major components of inventory consisted of the following:

Clothing	\$	1,500
Bedding		4,500
Food		<u>2,144</u>
	\$	<u>8,144</u>

(3) LONG-TERM DEBT

Long-term debt consists of the following:

Installment notes payable, secured by primary Mission facility on O.C. Haley Street, bearing interest at 3%, maturing in April 2008, monthly principal and interest payments of \$711 with a final balloon payment. This loan had a below market interest rate and interest has been imputed using the applicable federal rate of 7%.

\$ 104,458

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

(3) LONG-TERM DEBT (CONTINUED)

Installment notes payable, secured by signature, bearing interest at 5%, maturing in April 2008, monthly principal and interest payments of \$585 with a final balloon payment. This loan had a below market interest rate and interest has been imputed using the applicable federal rate of 7%.

83,854

Installment notes payable, secured by the Women's Center property on Baronne Street, bearing interest at 5%, maturing in April 2010, monthly principal and interest payments of \$877 with a final balloon payment.

143,446

Less: current portion

331,758

(13,799)

\$ 317,959

Long-term debt matures as follows:

<u>Year ended June 30,</u>	
2005	\$ 13,799
2006	6,698
2007	7,100
2008	84,275
2009	6,286
Thereafter	<u>213,600</u>
	<u>\$ 331,758</u>

The Mission also has a \$30,000 line of credit which bears interest at 10.25% at June 30, 2004, of which \$24,764 is outstanding and \$5,236 is available on the line at June 30, 2004. The line of credit matures on January 1, 2005.

(4) DONATED MATERIALS AND SERVICES

Donated food and supplies for which fair market values were estimated totaled \$131,839 for the year ended June 30, 2004, and are included as contributions.

Significant volunteer hours were expended on the Mission's behalf for special meal and volunteer days. These hours are not recorded since they do not meet the United States generally accepted accounting principles' recognition criteria.

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

(4) DONATED MATERIALS AND SERVICES (CONTINUED)

Various preachers and ministry workers provide regularly scheduled programs and services. If these individuals had not volunteered, the Mission would have salaried personnel. For the year ended June 30, 2004, these donated services were estimated to be equivalent to the services of two or three full-time ministers and are valued at \$46,280 in the accompanying consolidated financial statements.

For the year ended June 30, 2004, a doctor, a nurse and various medical students provided medical care at the Mission's medical clinic. The doctor's services are valued at \$200 per hour which is the volunteer doctor's estimated normal "on call" rate. The nurse's services are valued at \$70 per hour, which is an estimated hourly rate for contract professionals. The medical students' services have been valued at \$20 per hour, which is an estimated hourly rate for a medical intern. The value of these services are recorded at \$139,606 for the year ended June 30, 2004.

(5) RESTRICTED ASSETS

The temporarily restricted net assets as of June 30, 2004 consist of temporarily restricted donations that have not yet been used for their intended purpose. The donors restricted their use as follows:

Medical clinic	\$ 7,000
New Women's Center	9,500
Retreat Center	<u>7,000</u>
	<u>\$ 23,500</u>

(6) CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Mission to credit risk consist principally of employee advances, grants receivable and pledges receivable. These receivables are not collateralized.

The Mission maintains its cash balances at two local financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. There were no uninsured balances as of June 30, 2004.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
New Orleans Mission, Inc.

We were engaged to audit the financial statements of New Orleans Mission, Inc. and Subsidiary (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued our report thereon dated July 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Orleans Mission, Inc. and Subsidiary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect New Orleans Mission, Inc. and Subsidiary's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1, 2004-2, 2004-3 and 2004-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 2004-1, 2004-2, 2004-3 and 2004-4 to be material weaknesses.

ERICKSEN KRENTEL & LAPORTELLA

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

To the Board of Directors of
New Orleans Mission, Inc.
July 5, 2005
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Orleans Mission, Inc. and Subsidiary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2004-5 and 2004-6.

We also noted certain additional matters that we reported to management of New Orleans Mission, Inc. and Subsidiary in a separate letter dated July 5, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

July 5, 2005


Certified Public Accountants

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

We were engaged to audit the consolidated financial statements of New Orleans Mission, Inc. and Subsidiary as of and for the year ended June 30, 2004, and have issued our report thereon dated July 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the consolidated financial statements as of June 30, 2004 resulted in a disclaimer of opinion.

SECTION I SUMMARY OF AUDITORS' REPORTS

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses ☒ Yes ☐ No

Reportable Conditions ☒ Yes ☐ No

Compliance

Compliance Material to Financial Statements ☒ Yes ☐ No

b. Federal Awards Not Applicable

Internal Control

Material Weaknesses ☐ Yes ☐ No

Reportable Conditions ☐ Yes ☐ No

Type of Opinion on Compliance Unqualified ☐ Qualified ☐
for Major Programs Disclaimer ☐ Adverse ☐

Are their findings required to be reported in accordance with Circular A-133, Section .510(a)? ☐ Yes ☐ No

c. Identification of Major Programs: Not Applicable

CFDA Number(s)	Name of Federal Program (or Cluster)
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NEW ORLEANS MISSION, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004

Dollar threshold used to distinguish Type A and Type B Programs \$ _____

Is the auditee a 'low-risk' auditee, as defined by OMB Circular A-133?

 Yes No **Not Applicable**

SECTION II FINANCIAL STATEMENT FINDINGS

2004-1 Segregation of Duties

Criteria: Safeguarding of assets requires adequate segregation of duties in an effective internal control structure. No one person should have access to both physical assets and the related accounting records, to all phases of a transaction or responsibility for all functions in the payroll system.

Condition: Our evaluation of the internal control structure revealed an absence of appropriate segregation of duties consistent with appropriate control objectives regarding cash receipts and disbursements and payroll. The bookkeeper had unchecked access to all accounting functions, including possession of a signature stamp to sign checks. She had sole custody of all accounting records, many of which, including cleared checks returned with the bank statements, could not be located after her termination. She had the authority to commit the Mission to an air conditioning maintenance contract with a company owned by her neighbor. Actual expenditures to this company far exceeded the contract amounts.

Effect: Intentional or unintentional errors could be made and not be detected.

Cause: The Mission's administrative staff is small and therefore it is not feasible to maintain an adequate segregation of duties among accounting personnel.

Recommendation: The Board of Directors should remain involved in the day-to-day financial affairs of the Mission to provide oversight and independent review functions. The accountant should not be an authorized check signer and should not have access to cash receipts. Instead, someone independent of the accountant should prepare a list of checks received and should make bank deposits. The list would be given to the accountant for general ledger recording. Payroll should be reviewed and approved by management outside of the accountant.

Management's Response: Management agrees with the recommendation; however, they feel that because of the small number of personnel in the Mission it is not possible to remove the accountant from all phases of the accounting cycle. The Board of Directors, however, will monitor and review all financial transactions of the Mission.

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004

2004-2 Untimely Bank Reconciliations

Criteria: Internal controls should be in place to safeguard assets and provide assurance that they are accurately reported.

Condition: Monthly bank account reconciliations were not prepared on a timely basis for the bank accounts maintained by the Mission.

Effect: The failure to prepare timely bank account reconciliations could lead to reporting errors or defalcations not being identified or corrected on a timely basis.

Cause: The accountant was negligent in allowing the Mission to fall behind in account reconciliations.

Recommendation: Procedures should be implemented to assure that bank reconciliations are prepared on a timely basis each month.

Management's Response: Management agrees with the recommendation and engaged an outside CPA to assist in getting the reconciliations up to date. Further, the monthly reconciliations will be a priority in future periods.

2004-3 Lack of Formal Accounting Procedures and Management Oversight

Criteria: Timely and accurate financial reporting is dependent on a formal and reliable system of accounting procedures in an Organization. The effectiveness of such procedures is dependent on management oversight and involvement.

Condition: Our evaluation of the internal control structure revealed the absence of a formal system of procedures to ensure completeness, accuracy, and timeliness of the financial reporting. Many of the transactions tested lacked supporting documentation. The accounts of the Mission's subsidiary were not maintained in a separate general ledger system. Further, the executive director at the time demonstrated a complete disregard for his responsibility to provide oversight of the accountant.

Effect: The Mission's accounting system was incomplete. No procedures were in place to identify and record items such as in-kind donations, accruals, and fixed asset additions and disposals. The accountant is currently under a police investigation for alleged theft involving cash donations and unauthorized cash disbursements. This resulted in incomplete, inaccurate, unreliable and late financial reporting. Also, because of the poor system and lack of oversight, grant funds that the Mission was entitled to were not fully drawn down.

Cause: The Mission does not have a formal accounting policies and procedure manual and Management and the Board of Directors failed to provide the necessary oversight of the accountant.

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004

Recommendation: A formal accounting policies and procedures manual should be implemented. This manual should require formalized segregation of duties and significant Management and Board involvement in the accounting cycle.

Management's Response: Management agrees with this recommendation and will implement such a manual as soon as possible.

2004-4 Unauthorized Payroll Advances

Criteria: Payroll advances to employees should be extremely rare and should require authorization at the highest levels of a small organization.

Condition: The Mission's bookkeeper advanced payroll to herself and other employees. At June 30, 2004, the total unreimbursed balance was \$27,867.

Effect: The Mission advanced funds that it may not be able to get reimbursed, straining its resources and ability to provide services.

Cause: The lack of segregation of duties and lack of management or board oversight created an environment that allowed the bookkeeper to make unauthorized payroll advances.

Recommendation: Management must no longer allow payroll advances and must implement a system of internal controls which would establish levels of approval for certain transactions above the bookkeepers level.

Management's Response: Management concurs with the recommendation and has taken steps to seek reimbursement of the outstanding advances. Additionally, a criminal investigation has begun surrounding the bookkeeper.

2004-5 Failure to File Audited Financial Statements By Deadline

Criteria: Entities receiving governmental funds in Louisiana must submit audited financial statements to the Louisiana Legislative Auditor within six months of its fiscal year end.

Condition: The Mission failed to submit its audited financial statements by December 31, 2004.

Effect: The Mission is not in compliance with the requirements of the Louisiana Legislative Auditor.

Cause: The conditions described in items 2004-2 and 2004-3 delayed the start of audit fieldwork.

NEW ORLEANS MISSION, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004

Recommendation: Management should implement the recommendations made to resolve those findings which will allow for timely filing of the audit report.

Management's Response: Management will implement the recommendations made and will be aware of filing deadlines.

2004-6 Failure To Timely File Payroll Tax Returns

Criteria: All entities paying salaries and wages to employees must file quarterly and annual returns and remit the appropriate amount of payroll taxes to all local, state and federal agencies.

Condition: The Mission did not file quarterly federal and state payroll returns and did not remit the appropriate payroll tax for the period under audit.

Effect: The Mission is delinquent in payroll tax filings and is subject to interest, penalties and possible liens on property.

Cause: The Mission's bookkeeper was negligent in disregarding the requirement to file the returns. The Mission's executive director was negligent in his lack of oversight that allowed the condition to occur and last for several quarters.

Recommendation: Management should file all delinquent returns and remit the necessary amount of tax to each state and federal agency.

Management's Response: Management has engaged a CPA to work with the taxing authorities to bring the Mission into compliance.